

## Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 AID-20 CIAE-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 DRC-01 /151 W

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R 221846Z MAR 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8964

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 03686

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MARCH 22

BEGIN SUMMARY: THE POUND ROSE STEADILY AGAINST THE DOLLAR

THIS WEEK CLOSING AT \$2.3640 ON THURSDAY (MARCH 21).

AGAINST OTHER MAJOR CURRENCIES THE AVERAGE WEIGHTED

DEPRECIATION WIDENED TO 17.7 PERCENT ON THURSDAY COMPARED

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TO 16.9 PERCENT A WEEK AGO. GOLD REACHED ANOTHER NEW

HIGH OF \$177 ON WEDNESDAY MARCH 20. ON WEDNESDAY, THE STOCK MARKET FELL TO ITS LOWEST LEVEL SINCE NOVEMBER 1966. STATISTICS ON AVERAGE EARNINGS, BASIC WAGE RATES, UNEMPLOYMENT, INDUSTRIAL PRODUCTION AND GROSS DOMESTIC PRODUCT PUBLISHED THIS WEEK ALL UNDERLINE THE UNCERTAINTY OF THE EXACT STATE OF THE ECONOMY LESS THAN A WEEK BEFORE THE BUDGET. THE BUILDING SOCIETIES HAD A NET CASH OUTFLOW OF JUST OVER 15 MILLION POUNDS IN FEBRUARY AND THE LEVEL OF PRIVATE HOUSE BUILDING IS NOW 60 PERCENT DOWN ON A YEAR AGO. END SUMMARY

1. STERLING, IN REACTION TO THE DOLLAR'S WEAKNESS, STRENGTHENED MARKEDLY THIS WEEK AND CLOSED ON THURSDAY (MARCH 21) AT \$2.3640, ITS HIGHEST LEVEL SINCE LATE NOVEMBER. SINCE MOST MAJOR CURRENCIES GAINED AGAINST THE DOLLAR, THE POUND'S TRADE-WEIGHT DEPRECIATION AGAINST SMITHSONIAN RATES IN FACT WIDENED STEADILY OVER THE WEEK REACHING 17.8 PERCENT ON WEDNESDAY (MARCH 20) BUT NARROWED SLIGHTLY ON THURSDAY TO 17.7 PERCENT. A FRESH ROUND OF SPECULATIVE BUYING PUSHED THE GOLD PRICE UP \$7.50 ON WEDNESDAY (MARCH 20) TO A NEW HIGH OF \$177. IT FELL BACK \$2.00 ON THURSDAY TO CLOSE AT \$175, UP \$10.50 ON LAST THURSDAY'S CLOSE.

2. THE STOCK MARKET FELL SHARPLY ON WEDNESDAY IN REACTION TO THE GENERAL POLITICAL SITUATION AND THE EXTREMELY UNCERTAIN ECONOMIC OUTLOOK. THE FINANCIAL TIMES 30-SHARE INDEX WAS DOWN 6.4 POINTS TO 291.3 - ITS LOWEST SINCE NOVEMBER 1966. THE ONE SECTOR TO MOVE AGAINST THE TREND WAS GOLD MINES WHICH MOVED UP SHARPLY.

3. AVERAGE EARNINGS IN THE UK FELL BY ONLY 4.5 PERCENT DURING JANUARY WHEN THE 3-DAY WORKING WEEK WAS IN OPERATION. THE INDEX FOR JANUARY WAS 154.3 COMPARED TO 161.4 IN DECEMBER (JANUARY 1970100). THE SMALLNESS OF THE DROP IN EARNINGS HELPS TO EXPLAIN WHY THERE WAS VERY LITTLE REDUCTION IN RETAIL SALES IN JANUARY AND FEBRUARY IN SPITE OF THE SHORTER WORK WEEK. THE INDEX FOR BASIC HOURLY WAGE RATES ROSE 0.7 PERCENT FROM 123.4 IN JANUARY TO 124.3 IN FEBRUARY (JULY 1972100). THIS WAS SURPRISINGLY LITTLE IN UNCLASSIFIED

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VIEW OF ALL THE STAGE 3 SETTLEMENTS MADE IN FEBRUARY, BUT THE RISE IN WAGES WAS 14.2 PERCENT ON A YEAR EARLIER.

4. UNEMPLOYMENT FELL SLIGHTLY IN THE PERIOD TO MID-MARCH. AS OF MARCH 11, THE VERY FIRST DAY OF THE RETURN TO THE FIVE-DAY WEEK, THE NUMBER OF UNEMPLOYED STOOD AT 545,000 OR 2.4 PERCENT (SEASONALLY ADJUSTED).

5. INDUSTRIAL OUTPUT IN JANUARY WAS 10 PERCENT BELOW THE AVERAGE FOR THE MONTHS AUGUST TO OCTOBER IMMEDIATELY PRECEDING THE MINERS' DISPUTE. THE INDEX FOR JANUARY FOR ALL INDUSTRIES STOOD AT 99.7 COMPARED TO 106.5 FOR DECEMBER (1970100). THIS FALL IN OUTPUT SEEMS MUCH SMALLER THAN PREVIOUS SOUNDING HAD INDICATED. THE CENTRAL STATISTICAL OFFICE HAS EMPHASIZED THAT MANY OF THE COMPONENTS OF THE OFFICIAL INDEX REPRESENT DELIVERIES RATHER THAN ACTUAL PRODUCTION, ADDING: "IT IS LIKELY THAT PRODUCTION IN JANUARY FELL MORE THAN IMPLIED BY THE OFFICIAL INDEX." THE ACTUAL PRODUCTION LOST IN JANUARY WAS PROBABLY 15 PERCENT.

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6. GROSS DOMESTIC PRODUCT ROSE BY 5-1/2 PERCENT BETWEEN 1972 AND 1973. THIS WAS THE HIGHEST GROWTH RATE SINCE 1964 WHEN IT WAS 5.7 PERCENT. HOWEVER, GDP (ON THE OUTPUT ESTIMATE) FELL BY 1/2 PERCENT BETWEEN THE THIRD AND FOURTH QUARTERS OF 1973 DUE TO FUEL SHORTAGES AND THE EMERGENCY MEASURES WHICH REDUCED INDUSTRIAL PRODUCTION SIGNIFICANTLY. FOR 1973, THE AVERAGE ESTIMATE OF GDP AT CONSTANT FACTOR COST (1970100) AND SEASONALLY ADJUSTED WAS 108.0 FOR 1973 AS A WHOLE AND 108.0 FOR 1ST Q, 107.8 UNCLASSIFIED

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FOR 2ND Q, 108.1 FOR 3RD Q, AND 108.2 FOR 4TH Q.

7. THE BUILDING SOCIETIES ANNOUNCED THEIR WORST SET OF MONTHLY FIGURES ON RECORD. THERE WAS A NET CASH OUTFLOW OF JUST OVER 15 MILLION POUNDS IN FEBRUARY. THE STAGNANT STATE OF THE HOUSING MARKET HAS MEANT THAT WORK ON NEARLY 20 PERCENT OF HOMES NOW UNDER CONSTRUCTION HAS BEEN HALTED FOR SIX WEEKS OR MORE, AND THIS FIGURE IS UP TO 30 PERCENT IN SOME AREAS. TALKS WITH THE GOVERNMENT WILL BE HELD AFTER TUESDAY'S BUDGET.

8. THE FORWARD DISCOUNTS ON STERLING GENERALLY NARROWED OVER THE WEEK.

	3/14	3/21	CHANGE
1 MONTH	1.85	1.35-1/2	DOWN 0.49-1/2
3 MONTHS	5.65	5.01	DOWN 0.64
6 MONTHS	9.97-1/2	9.49	DOWN 0.48-1/2

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES ROSE AT ONE MONTH, SHOWED A MIXED PATTERN AT THREE AND SIX MONTHS.

	3/14	3/21	CHANGE
1 MONTH	15	15-1/8	UP 1/8
3 MONTHS	15-5/8	15-5/8	UNCHANGED
6 MONTHS	15-5/8	15-1/2	DOWN 1/8

10. EURO-DOLLAR RATES REACHED THEIR HIGH FOR THE WEEK ON TUESDAY (MARCH 19) BUT FELL BACK SOMEWHAT LATER IN THE WEEK.

	3/14	3/21	CHANGE
1 MONTH	8-7/8	9-3/8	UP 1/2

3 MONTHS	8-7/8	9-3/8	UP 1/2
6 MONTHS	8-7/8	9-3/8	UP 1/2

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 12.5  
PERCENT ON FRIDAY, MARCH 22.

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## Message Attributes

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**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
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**TAGS:** ECON, UK  
**To:** STATE  
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